

From: Bill Simon [bsimon@emergingtech.org]

Sent: Monday, March 21, 2005 12:29 PM

To: restructure.sizestandards@sba.gov

Subject: FW: Size Standards, Proposed Changes to [Comments] RIN 3245-ZA02

VCs should not be automatically exempt. Nor should they be able to control small business entities (with a majority of a board of directors) if they want to keep the company eligible for SBIR funding.

From: Bill Simon

Sent: Thursday, March 03, 2005 5:27 PM

To: Edsel M. Brown Jr. (edsel.brown@sba.gov)

Subject: Size Standards, Proposed Changes to [Comments]

Edsel,

This is open season on comments to the proposed size standards changes. (I could not find the official place for these.) Here are my comments:

The standards should not be changed very much. The issue of ownership and control of a small, growing business necessarily means thing will change. An early stage company will usually be funded by its founders. Somewhere at the beginning they may seek SBIR assistance. The small business should be eligible since they are small, and have the US ownership attribute. Sometimes a university (non-qualifying entity) or a big company (non-qualifying entity) may own a few percent of the shares from a licensing arrangement form the intellectual property that begins or moves along the research. This should be ok up to some point, such as 19%, provided they have no board seats or no control. At some point in its life the company may agree to sell shares to a venture capital company. Certainly the winning of SBIR awards validates the technology to the outside people, and makes it an attractive investment. It should be ok for the sum of all venture ownership to be 80% or less, provided the VCs qualify on their own. That is the VC must be owned by qualified entities (not big companies, labor unions, pension funds, etc.). The control exercised by these venture funds should be less than a majority of the board of directors. If they are a majority of the board, then control is in question and they should not be eligible to accept SBIR funding. Further, if a group of individuals (fewer than 500) owns shares in a company through some other legal entity (C corp, LLC, etc.) , they should be counted as individuals for ownership and control issues, provided they meet the other ownership tests. The separation of ownership and control is important.

Please pass this along.

Best regards,

Bill

William B. Simon

Vice President and COO

Center for Emerging Technologies

4041 Forest Park Avenue

St. Louis, MO 63108-2211

314-615-6908

www.emergingtech.org

